

Outline of Scott Smith's Presentation to the Federal-State Joint Board on  
Universal Service - September 13, 1996

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY**WHY ALASKA NEEDS COST-BASED UNIVERSAL SERVICE FUNDING****A. Alaska Map**

1. Size reference Lower 48
2. Distribution of communities & roads
3. Satellite hops - 92,000 miles
4. 72% Exchanges serve <200 lines
5. ASTAC service area/tape

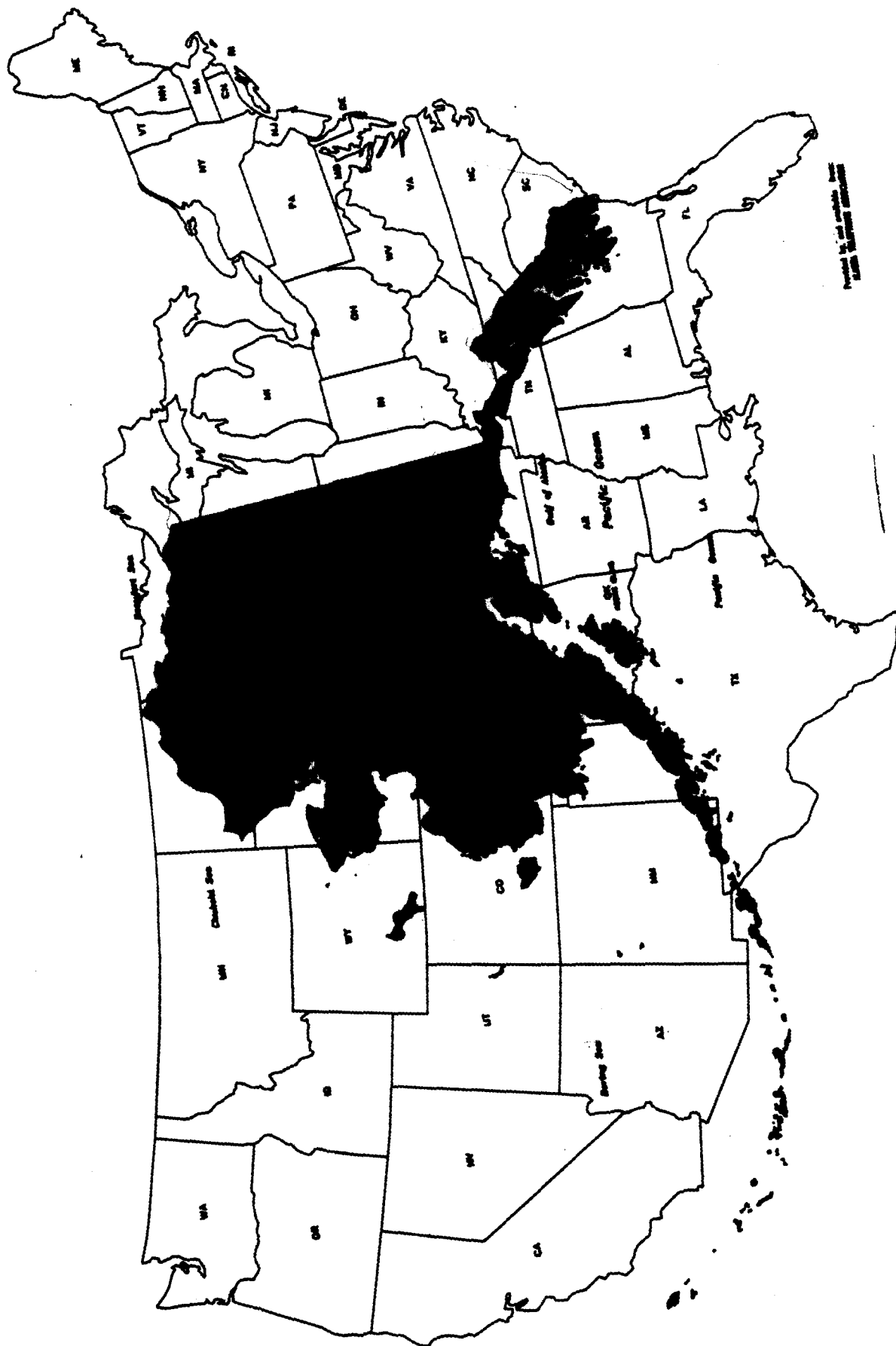
**B. Costs**

1. \$630 million infrastructure
2. \$3900 per loop average investment
3. MTA - 25% revenues reinvested
4. BETRS site
5. \$310/loop/month to \$2258/loop/month
6. Fiber \$50k/mile vs. \$10k/mile Lower 48
7. Permafrost drives building cost - \$400k vs. \$150k
8. AC Power - fuel costs
9. Freight - air taxi, hovercraft, barges
10. Maintenance uses all forms travel
11. Not accounted for by proxy, benchmarks

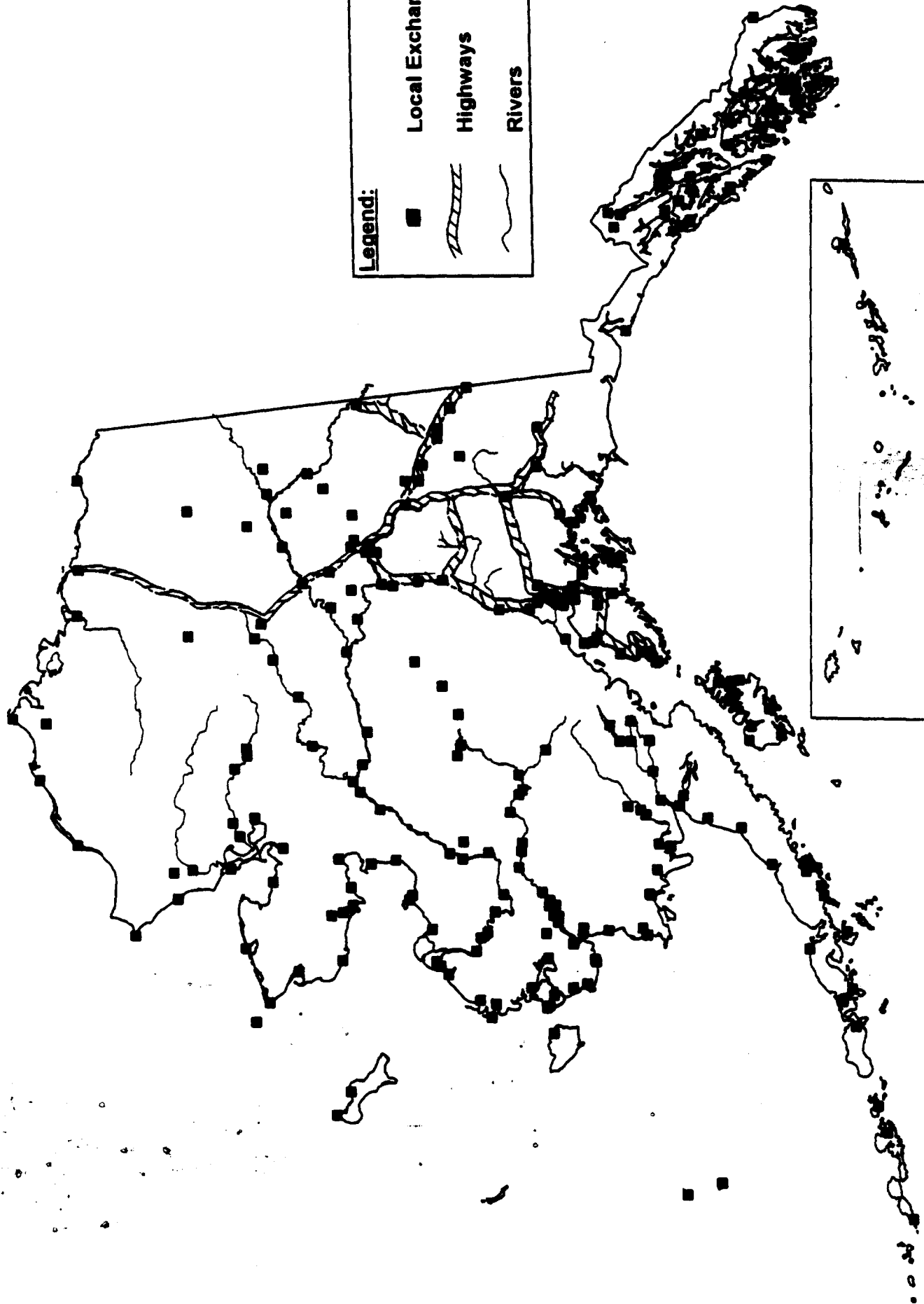
**C. Recommendations**

1. Bifurcate, test low cost areas first
2. Transition
  - a. Rebalance rates as below cost now
  - b. Increase equity, recover depreciation
  - c. Original REA rules built plant to everywhere
3. Provide core services
4. Satellite (IXC) bottleneck
5. Review record of panels

**WHY UNIVERSAL SERVICE IS  
IMPORTANT TO ALASKA**



# ALASKA LOCAL EXCHANGE COMPANIES



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## **ALASKA STATISTICS**

- **326 YEAR-ROUND COMMUNITIES IN ALASKA**
- **232 COMMUNITIES (72% OF OUR COMMUNITIES) ARE NOT ACCESSIBLE BY THE HIGHWAY SYSTEM**
- **236 COMMUNITIES (AGAIN, 72% OF OUR COMMUNITIES) IN ALASKA HAVE POPULATIONS OF LESS THAN 500**
- **174 (72%) CENTRAL OFFICES SERVE LESS THAN 200 ACCESS LINES**
- **AVERAGE INVESTMENT PER LOOP FOR USF RECIPIENTS IS \$3,900**

# **ALASKA LEC's RECEIVING UNIVERSAL SERVICE SUPPORT**

<b><u>Study Area Name</u></b>	<b><u>USF Loops</u></b>	<b><u>USF Cost Per Loop</u></b>	<b><u>Annual USF Assistance Per/Loop</u></b>
Arctic Slope Telephone	1,817	844.54	410.64
Bettles Telephone Company, Inc.	75	621.35	243.24
Bristol Bay Telephone Cooperative	1,584	555.97	194.16
Bush-Tell, Inc.	718	751.30	340.68
Circle Utilities	31	645.54	261.36
Copper Valley Telephone	4,689	627.71	248.04
Cordova Telephone Cooperative	1,608	469.72	129.48
Fairbanks Municipal	30,853	367.45	53.28
Glacier State Telephone Company	39,789	637.84	255.6
Interior Telephone Company, Inc.	3,775	741.21	333.12
Juneau & Douglas Telephone	19,581	310.43	16.2
Ketchikan Public Utility	9,315	341.51	36.48
Matanuska Telephone Association, Inc.	36,910	664.12	275.28
Mukluk Telephone Company, Inc.	901	1,056.31	569.4
Alaska Telephone Company	3,041	378.57	61.08
Nushagak Telephone Company	1,915	517.80	165.6
OTZ Telephone Cooperative	2,482	386.30	66.96
Sitka Telephone Company	11,183	451.34	115.68
United Utilities, Inc.	4,572	779.44	361.8
Yukon Telephone Company, Inc.	396	804.85	380.88
North Country Telephone Company	144	450.39	114.96
Summit Tel & Tel - Alaska	104	2,257.71	1470.48
<b><u>Alaska Totals:</u></b>	<b><u>175,483</u></b>	<b><u>520.10</u></b>	<b><u>176.81</u></b>
Study Area Count: 22			

## **Problems of Delivering Telecommunications Services to Rural Alaska**

**Thursday August 22, 1996**

**9:00 a.m.**

- **Introduction of TelAlaska Service Areas**

TelAlaska has provided telephone service in rural Alaska for the past 27 years. TelAlaska is the parent company of Interior Telephone Company and Mukluk Telephone Company, both local exchange carriers. Our service areas, even by Alaska standards, include some of the most remote rugged and culturally diverse geographic areas in the United States. These areas include Little Diomed Island which is located in the Bering Sea only 2.6 miles from Russia; Fort Yukon, an Athabascan Indian community where temperatures can exceed 90° in the summer and 50° below zero in the winter; we also serve communities located on the Alaska Peninsula and Aleutian Islands, including Unalaska, Sand Point and King Cove, where hurricane force winds and volcanic eruptions are frequent occurrences. TelAlaska's service areas also include twelve Eskimo villages along the Iditarod Dog Sled Trail near Nome.

Nationwide, major carriers have tended to ignore the needs of rural high cost areas. However, rural customers in areas served by an experienced rural local exchange company enjoy the same quality of service provided in urban areas.

- Mukluk Telephone's service area exceeds 27,000 square miles. Of the communities that Mukluk serves, Little Diomed is the most remote. It is a rocky, treeless island located over 150 miles west of Nome. In the summer it is accessible only by helicopter or boat. In the winter they plow the snow off the pack ice of the Bering Sea for a runway. This community, like so many others, has no hotel. Our technicians' equipment includes a sleeping bag and enough food for his stay on the island. The people of Little Diomed live primarily a subsistence live style, fishing and hunting. The weather is fierce. Nevertheless, this community has digital, single line service and over

half of its access lines are business lines. The community has modems, faxes, and touch tone service.

- TelAlaska understands the critical role of telecommunications in economic development. Interior Telephone's largest service area, Unalaska, is an island in the Aleutian chain which is only accessible by plane or boat. Unalaska is the largest seaport in the United States for volume and value of seafood landed. Thus, not surprisingly, over half of Unalaska's 2,156 access lines are business lines. Unalaska's fishing industry would not have developed to this level if Interior Telephone Company had not responded to Unalaska's telecommunications needs and provided a network with advanced telecommunications services.

Both Interior telephone company and Mukluk telephone company rely on national universal service funding and low cost financing (including funds from the Rural Utilities Service (RUS) and Rural Telephone Finance Cooperative to provide modern and affordable local exchange telephone service.

- Universal Service Funds are distributed to qualified rural telephone companies and used to offset the cost of providing modern telecommunications services in high cost, rural areas of the United States. The Federal Telecommunications Act of 1996 provides for subsidies that are specific, predictable and sufficient so that the consumers in rural, insular and high cost areas have access to telecommunications and information services, that are reasonably comparable to those services in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas. This is vitally important in rural Alaska. The actual cost to provide service in Interior's service areas is \$150.00 per access line per month and \$ 156.00 in Mukluk's areas. The residential customer pays \$19.85 and \$15.20 per month respectively. However, because of the limited calling scope and the lack of services locally they make an average of \$60.00 per month in toll calls. None of these people could afford to pay over \$200.00 per month for telephone service.



- Competition does not lower cost. Competition moves price toward cost. Competition does not make cost disappear. Revenue lost to competition needed to cover fixed costs can only be made up by raising the price for customers left on the existing system.
- The Alaska Telephone Association is recognized as a national leader in championing the rights of rural consumers to high quality telecommunications services. The Alaska Telephone Association assisted the Alaska Public Utilities Commission and its Staff in developing a State Telecommunications Modernization Plan, the first STMP approved in the Nation. I participated and continue to participate in the policy debates at the state and national level to ensure that ratepayers in high-cost, rural areas receive modern and affordable local exchange telecommunication services. My major concern is for our customers who may have to pay as much as 200.00 a month for service, unless the Universal Service Fund is maintained.
- If I could may one key point it would be that the problem of delivering telecommunications services to rural areas lies with the inability of the long-distance carriers to provide the Local Exchange Companies with broadband services, T1, and frame relay services in all the communities of the State of Alaska at reasonable and affordable rates. A state-of-the-art advanced network, Telemedicine, Internet and Distance Learning cannot progress without these broadband services.
- I hope that the APUC and the FCC will do everything within their power to ensure that the people of the communities we serve will be able to enjoy the network we have worked so hard to build.

**Interior Telephone Company Inc.**  
**1996**

	<b><u>R1</u></b>	<b><u>Total Access Lines</u></b>	<b><u>House Count</u></b>	<b><u>Residential Penetration</u></b>
Sand Point	254	432	277	.92
Port Lions	78	131	114	.68
King Cove	207	331	199	1.04
Cold Bay	47	176	66	.71
Iliamna	68	172	120	.56
Unalaska	916	2156	1149	.80
Cooper Landing	140	251	189	.74
Galena	151	302	258	.58
Fort Yukon	155	297	267	.58

The monthly R1 rate is \$19.85. The average monthly residential billing (plus toll) is \$89.00. The explicit unseparated cost per month is roughly \$140.00 per loop. Access line count was as of 4-1-96. The house count is two years old and I am not sure if they didn't count out houses and smoke houses. Many of the business lines are in homes. King Cove penetration of 100 plus due to a teen line program started 12-1-95.

**Mukluk Telephone Co., Inc.**  
**1996**

	<b><u>R1</u></b>	<b><u>Total Access Lines</u></b>	<b><u>House Count</u></b>	<b><u>Residential Penetration</u></b>
White Mountain	36	71	84	.43
Teller	83	156	168	.49
Shishmaref	112	167	148	.76
Wales	34	75	47	.72
Little Diomedea	20	55	42	.48
Golovin	34	75	66	.52
Elim	47	88	75	.63
Saint Michael	40	87	77	.52
Stebbins	45	87	81	.56
Shaktolik	43	82	67	.64
Koyuk	64	110	86	.74

The monthly R1 rate is \$15.20. The average monthly residential billing (plus toll) is \$71.00. The explicit unseparated cost per month is roughly \$180.00 per loop. Other notes the same as above.